

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF SELECTED COST DATA
DOCUMENTATION OF
HIGHMARK, INCORPORATED**



**December 2003
A-03-03-00017**

Office of Inspector General

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DEPARTMENT OF HEALTH & HUMAN SERVICES

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DEC 9 2003

TO: Charlotte Foster, Associate Regional Administrator
Division of Medicare Financial Management
Centers for Medicare & Medicaid Services

FROM: Stephen Virbitsky 
Regional Inspector General for Audit Services

SUBJECT: Review of Selected Cost Data Documentation of Highmark, Incorporated
(A-03-03-00017)

On May 5, 2003, you requested our assistance in reviewing cost data documentation provided by Highmark, Incorporated, (Highmark) in order to settle an audit finding in a report prepared by Carmichael Brasher Tuvell & Company. That audit was unable to render an opinion on \$5,287,739 in payments made to Highmark's subcontractors (Blue Cross of Northeastern Pennsylvania and Capital Blue Cross), as the subcontractors were not paid based on costs but rather were paid based on a percentage of the amount approved by the Notice of Budgetary Authority. In its response to the audit report, Highmark responded that it had actual cost data to support the costs associated with its subcontractors. Our audit was limited to determining whether the actual cost data available from Highmark was sufficient to support the payments to its subcontractors in accordance with appropriate regulatory guidance.

We consider the annual reimbursement rates for all 12 workload categories billed and the workload statistics for 5 of the 12 workload categories billed to be reasonable, allocable, and allowable. We did not resolve the remaining seven workload categories. Although those charges appear to be reasonable and allocable, Highmark and its subcontractors were not able to provide complete source documentation for the seven workload categories. Failure to provide supporting documentation renders those charges unallowable and, in accordance with Clause XIV of the purchase service agreement, subject to "a reduction in price if the cost or pricing data is found to be defective."

Consequently, we consider \$4,000,689 of the \$5,287,739 to be reasonable, allocable, and allowable. We are not rendering an opinion on the remaining \$1,287,050 that was paid to the subcontractors. The appendix contains a schedule of the amount claimed and paid on the final administrative cost proposal, our determination of the amount documented and allowed, and the amount that was not documented for which we are not expressing an opinion.

OBJECTIVE, SCOPE, AND METHODOLOGY

We conducted our audit of the selected cost data documentation in accordance with generally accepted government auditing standards. The objective of the audit was to determine whether documentation available from Highmark for fiscal years (FY) 1998 through 2001 was sufficient to support the payments to subcontractors in accordance with appropriate regulatory guidance, specifically:

- 48 Code of Federal Regulations, Chapter 1, Part 31 – Federal Acquisition Regulation, Contract Cost Principles and Procedures
- Purchase Service Agreement between Highmark and its subcontractors

We reviewed the *Report of Examination of the Administrative Costs incurred under the Health Insurance for the Aged and Disabled (Medicare) Part A & B, Highmark Inc., for the period October 1, 1997 through September 30, 2001*, prepared by Carmichael Brasher Tuvell & Company. That audit report stated that they were unable to render an opinion on \$5,287,739 for the amounts paid to Highmark's two subcontractors.

We verified the annual reimbursement rates for all 12 categories of workload for each of the 4 fiscal years reviewed that were included in the purchase service agreement and updated annually. We obtained workload information from the subcontractors' Medicare Monthly Workload Report (308 Report), the same report used by Highmark to obtain reimbursement for its Medicare workload. That report included workload information for five workload categories – bills paid, written inquiries, walk-in inquiries, beneficiary inquiries, and provider inquiries.

We reviewed a consolidated spreadsheet prepared by Highmark financial personnel, that identified the reimbursement rates, the number of units performed, and the total dollar value of the services for all 12 workload categories. Financial personnel compiled that workload information from various source documents, including the existing 308 Report and from facsimile, email correspondence, telephone call documentation that no longer exist.

We did not express an opinion on Highmark's internal control structure and we did not audit Highmark's sub-contractors billed costs that were in excess of the amount reimbursed by Highmark. This report is intended for the use of the Associate Regional Administrator to serve as a basis for determining the allowability of the \$5,287,739 paid by Highmark. The fieldwork was performed at Veritus Medicare Services (Highmark's Medicare Part A subsidiary), Pittsburgh, Pennsylvania, during September and October 2003.

RESULTS OF AUDIT

We consider \$4,000,689 of the \$5,287,739 paid by Highmark to its subcontractors to be reasonable, allocable, and allowable. We were unable to render an opinion on the remaining amount of \$1,287,050 because we could not verify the total workload amounts for 7 of the 12 workload categories that were reimbursed. We consider the reimbursement rates for all

12 categories billed and the workload statistics for 5 of the 12 workload categories to be reasonable, allocable, and allowable. We were unable to render an opinion on the remaining seven workload categories because although the charges appear to be reasonable and allocable, they were not allowable because they were not fully supported.

In August 1984, Highmark (formerly Blue Cross of Western Pennsylvania) assumed the responsibilities of fiscal intermediary from Blue Cross of Northeastern Pennsylvania and Capital Blue Cross. A purchase service agreement was entered into between Highmark and the former intermediaries for them to provide basic Medicare services for beneficiaries and providers beginning in October 1984. From 1998 through 2001, those subcontractors submitted cost reports totaling \$8,507,106 for services that they performed for Highmark. However, under the provisions of the service agreement, they were not paid based on costs but rather were paid based on a percentage of the amount approved by the notice of budgetary authority. We verified that the monthly amounts paid did not exceed the quarterly or annual allocation of the notice of budgetary authority amount. Those purchase service agreements formally ended in 2000 for Capital Blue Cross and in 2001 for Blue Cross of Northeastern Pennsylvania.

Workload Rates

The workload reimbursement rates used in calculation of the amounts billed by Highmark's two subcontractors were accurate for each of the 12 categories of service billed. Not all of those categories were used each year and applicable workload rates for those categories of services were the standard rates updated each fiscal year by Medicare. Because those rates were not always known before the start of the fiscal year, the old rates were used and adjustments to the amounts paid were made when the final rates were established, usually during November or December of each year.

Workload Statistics

Highmark summarized subcontractor workload statistics for each category of service from various documented and undocumented sources. The standard system Medicare 308 Report identified workload statistics for 5 of the 12 categories of service billed by Highmark's two subcontractors. Those categories included bills paid, written inquiries, walk-in inquiries, beneficiary inquiries, and provider inquiries. The 308 Report is the same report that Medicare contractors use to identify workload statistics for those five categories of service. Charges totaling \$4,000,689 were supported by the 308 Report.

Highmark and its subcontractors did not have documentation to support the workload statistics for the remaining seven categories of service. Those services include Medicare secondary payer services (prepay claims, postpay claims, inquiries, hospital audits), customer service plan inquiries, and provider education and training (program management and Medicare Integrity Program). Highmark received workload statistics for those categories by email, facsimile, telephone, or other written correspondence from the subcontractors. Neither Highmark nor the subcontractors maintained copies of those correspondences. Highmark did not have documentation to support the charges for those seven categories of service totaling \$1,287,050.

The only documentation available was a spreadsheet that summarized the workload quantities for each category of service billed by the subcontractors.

As noted above, the purchase service agreements between Highmark and the two subcontractors had been in effect since 1984 and the relationship ended by 2001. Highmark has paid the subcontractors using the same methodology since 1984 but had not required the subcontractors to maintain documentation supporting all charges and Highmark did not maintain all the documentation that was provided to them by the subcontractors over the years.

CONCLUSION

We found sufficient documentation to support the payment of \$4,000,689 of the total \$5,287,739 claimed by the subcontractors. Those payments were reasonable, allocable, and allowable. For the balance paid, totaling \$1,287,050, Highmark and its subcontractors were unable to provide additional documentation. Based on the purchase service agreement and summarized workload statistics that amount appeared to be reasonable and allocable but not fully supported. Consequently, we did not render an opinion on that amount.

Cost and Payment Related Data
Purchase Service Agreement Between Highmark and Its Two Subcontractors

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>Total</u>
Total Amount Incurred on Subcontractor Cost Report					
BCNE ¹	817,560	809,459	1,085,261	1,228,326	3,940,606
CBC ²	<u>1,526,340</u>	<u>1,759,954</u>	<u>1,280,206</u>	<u>N/A</u>	<u>4,566,500</u>
	2,343,900	2,569,413	2,365,467	1,228,326	8,507,106

Amount Claimed on the Final Administrative Cost Proposal

BCNE	753,200	600,590	598,238	545,930	2,497,958
CBC	<u>788,500</u>	<u>1,255,035</u>	<u>746,246</u>	<u>N/A</u>	<u>2,789,781</u>
	1,541,700	1,855,625	1,344,484	545,930	5,287,739

Payment Amount Documented on the 308 Workload Report

BCNE	490,394	533,649	487,805	399,254	1,911,102
CBC	<u>788,500</u>	<u>919,505</u>	<u>381,582</u>	<u>N/A</u>	<u>2,089,587</u>
	1,278,894	1,453,154	869,387	399,254	4,000,689

Balance of Payment Not Supported by Subcontractor Documentation

BCNE	262,806	66,941	110,433	146,676	586,856
CBC	<u>0</u>	<u>335,530</u>	<u>364,664</u>	<u>N/A</u>	<u>700,194</u>
	262,806	402,471	475,097	146,676	1,287,050

¹ BCNE – Blue Cross of Northeastern Pennsylvania

² CBC – Capital Blue Cross

ACKNOWLEDGEMENTS

This report was prepared under the direction of Stephen Virbitsky, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff that contributed includes:

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